

Message Text

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E.O. 11652: GDS
TAGS: MIL, EAIR, CA
SUBJ: LOCKHEED LRPA PROGRAM: VIEWS OF THE DEPT
OF FINANCE

REF: OTTAWA 963

1. SINCE ROLE OF DEPARTMENT OF FINANCE IN LOCKHEED POLICY HAS BEEN ALLUDED TO ON SEVERAL OCCASIONS, TCO MET MORNING MAY 10 WITH A. J. BARRY (DIRECTOR, ECONOMIC DEVELOPMENT DIVISION UNDER ASSISTANT DEPUTY MINISTER YOUNG WHO ATTENDED WASHINGTON MEETING FEBRUARY 24) FOR REVIEW OF ISSUE AS SEEN FROM FINANCE PERSPECTIVE.
 2. FOLLOWING GENERAL POINTS EMERGED FROM CONVERSATION WHICH MAY BE OF IMPORTANCE AND WHICH ARE NOT BASICALLY INCONSISTENT WITH INFORMATION FROM DND AND DSS SOURCES:
 - A. FINANCE IS PRIMARILY CONCERNED WITH ASSESSING THE DEGREE OF RISK TO WHICH MINISTERS WILL SUBJECT THEMSELVES BY APPROVING LOCKHEED CONTRACT ON EITHER A DIRECT, FMS, OR MIXED BASIS. THE RISK IS IN TERMS OF THE VIABILITY OF THE FIRM AS PRESENTLY ORGANIZED OR WITHIN THE FRAMEWORK OF POTENTIAL RECEIVERSHIP. FINANCE IS ESPECIALLY CONCERNED WITH THE MAINTENANCE OF THE PRICE AND CONDITIONS ALREADY ACCEPTED AND MUST MAKE JUDGMENTS AS TO HOW BOTH THE PROPOSED U.S.
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LEGISLATION AND U.S. BANKRUPTCY LAWS COULD AFFECT THAT.

BARRY READILY ADMITTED THAT HE IS TRYING TO PROVIDE QUANTITATIVE CERTAINTIES IN AN AREA CHARACTERIZED BY MANY EXTERNAL VARIABLES, BUT SAID THIS IS WHAT HE GOC LOOKS TO HIS ORGANIZATION DO SO.

B. ONE OF THE OPTIONS BEING DISCUSSED AT THE OFFICIAL LEVEL IN THE FINANCE DEPARTMENT IS A RECOMMENDATION THAT THE ENTIRE PROCUREMENT BE SUSPENDED UNTIL SUCH TIME AS THE ATMOSPHERE SURROUNDING LOCKHEED IS CLEARER THAN IT IS TODAY. THIS WOULD, OF COURSE, COMPLETELY OPEN UP THE PRICE AND CONDITIONS QUESTION AS WELL AS HAVE OTHER UNDESIRABLE CONSEQUENCES. NEVERTHELESS, THERE IS A STRONG VIEW IN THE DEPARTMENT THAT THIS SHOULD BE URGED ON THE FINANCE MINISTER.

C. THE PROBLEM OF THE GOVERNMENT'S CREDIBILITY WITH PARLIAMENT, PRESS AND PUBLIC IS A MAJOR CONCERN TO OFFICIALS. THUS NOT ONLY MUST CABINET MEMBERS BE FULLY CONVINCED THEY CAN SELL ALL ASPECTS OF THE LRPA CONTRACT PUBLICLY, BUT ALL ITS ASPECTS MUST BE FULLY CONSISTENT WITH THE ANTI-INFLATION PROGRAM, WHICH BARRY DESCRIBED AS THE PRESENT MAJOR POLITICAL UNDERTAKING OF THE GOVERNMENT. THIS MEANS THAT THE PROCUREMENT IF MADE MUST CLEARLY BE WITHIN THE SCOPE OF THE RECENT ESTIMATES WHICH IN TURN REFLECT THE GOC'S ATTEMPTS TO RESTRAIN ITSELF AS A MEANS OF SECURITY LABOR ADHERENCE TO RESTRAINT. A DEVICE APPEARS TO EXIST FOR HANDLING THE BRIDGE FINANCING ISSUE (ALTHOUGH THERE IS STILL SOME LEGAL DEBATE ABOUT ITS APPLICABILITY), BUT IT WILL REQUIRE AN ITEM IN A SUPPLEMENTARY ESTIMATE WITH ALL THE POLITICAL RISKS THAT GO WITH THIS IN TERMS OF THE ANTI-INFLATION PROGRAM. THUS CERTITUDE AND CAUTION ARE CRITICAL VIRTUES EVEN THOUGH THERE IS IN FINANCE A HOPE AND EXPECTATION THAT THE PROCUREMENT CAN GO THROUGH.

3. THE CONVERSATION THEN TURNED TO MORE SPECIFIC ITEMS:

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A. WITH RESPECT TO PENDING U.S. LEGISLATION AS DESCRIBED IN STATE 56632, BARRY DREW A DISTINCTION BETWEEN THE WHOLE AND PART OF THE PROCUREMENT. HE DISTINGUISHED BETWEEN THE AIRCRAFT AND THE S3A AVIONICS PACKAGE ON THE ONE HAND, AND THE UNIQUELY CANADIAN AVIONICS FEATURES AS WELL AS THE INTEGRATION OF THESE WITH THE AIRCRAFT/S3A MIX, ON THE OTHER HAND. HE ASKED SPECIFICALLY WOULD THE PENDING LEGISLATION PUT ALL OF

THE PROCUREMENT OR JUST THE AIRCRAFT/S3A PORTION UNDER THE FMS PROGRAM AND INDICATED THAT THIS WAS AN IMPORTANT ISSUE.

B. LIKEWISE, HE REFERRED TO THE DOD NON-PAPER OF MARCH 3 (STATE 52155) AND ASKED WHETHER THE ASSURANCES PROVIDED THEREIN, WHICH ARE DIRECTLY RELATED TO FMS PROCUREMENT, ALSO APPLY IF THE GOC BYPASSES FMS AND CONTRACT DIRECTLY WITH LOCKHEED AS DND/DSS ARE URGING.

4. TCO SAID HE COULD NOT REPLY TO EITHER OF THESE QUESTIONS AND THE DISCUSSION THEN TURNED TO THE DESIRABILITY OF A SECOND WASHINGTON/OTTAWA HIGH LEVEL MEETING AT WHICH ISSUES LIKE THESE, THE QUESTION OF POSSIBLE RECEIVERSHIP, AND OTHER MATTERS COULD BE TALKED OUT IN DETAIL. BARRY INDICATED HE FAVORED SUCH A MEETING AND THAT SOME CONSIDERATION IS BEING GIVEN TO REQUESTING IT. TIME TABLES ARE THE PROBLEM AT THE MOMENT. A MAJOR HIGH LEVEL MEETING OF GOC OFFICIALS WILL COMMENCE THIS AFTERNOON (MARCH 10) AND RUN THROUGH MUCH OF THE WEEK IN PREPARATION FOR CABINET COMMITTEE CONSIDERATION OF THE QUESTION MARCH 16 AND FULL CABINET DELIBERATION ON MARCH 18. THESE LATTER DATES COULD SLIP, BUT THEY ARE THE TARGETS OF THE MOMENT.

5. WITH RESPECT TO THE BRIDGE FINANCING QUESTION BARRY SAID THERE WAS A POSSIBLE APPROACH (STILL BEING DEBATED) WHEREBY THE GOC COULD GUARANTEE A BANK LOAN TO GET PRODUCTION STARTED. THIS WOULD HAVE TO BE LAID BEFORE PARLIAMENT IF IT WAS DONE, BUT THE BIGGEST OBSTACLE APPEARS TO BE U.S. LAW, RATHER THAN THE ANTI-INFLATION PROGRAM. BARRY ASKED IF TCO COULD CONFIRM CONFIDENTIAL

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WHETHER THERE WAS IN THE U.S. LOCKHEED LOAN LEGISLATION A RIGID PROHIBITION AGAINST THE FIRM'S ACQUIRING ANY MORE DEBT EVEN THOUGH IN THIS CASE THAT DEBT WOULD BE GUARANTEED BY THE GOC. HE SAID THAT IF THIS WERE THE CASE A PRIME SUBCONTRACTOR, SUCH AS CANADAIR, WOULD HAVE TO BE USED AS THE BORROWER AND THIS WOULD CREATE ITS OWN POLITICAL PROBLEM IN CANADA.

6. FINALLY, TURNING TO THE QUESTION AGAIN OF THE GOVERNMENT'S CREDIBILITY AND ITS NEED TO ASSURE ITSELF IT KNEW EVERYTHING POSSIBLE ABOUT LOCKHEED'S SITUATION IN ASSESSING THE RISK INVOLVED IN CABINET DECISIONS, BARRY ASKED WHETHER THE EMERGENCY LOANS GUARANTEE BOARD STAFF WOULD BE WILLING AND ABLE TO RECEIVE A GOC FINANCIAL ANALYSIS TEAM -- PERHAPS ON FRIDAY,

MARCH 12 -- TO REVIEW ALL ITS INFORMATION ABOUT LOCKHEED ON A CONFIDENTIAL BASIS, AND TO DISCUSS THE OUTLOOK, WITH A VIEW TO ASSISTING GOC IN MAKING A JUDGMENT ON THE LONGER TERM RISKS ASSOCIATED WITH THE FIRM. AFTER DISCUSSION WITH ROUSE (EUR/CAN), TCO ADVISED BARRY MEETING WITH ELGB COULD BE ARRANGED BUT THAT THE TERMS OF REFERENCE SHOULD BE SPECIFIED MORE FIRMLY AND PERHAPS THIS FINANCIAL ANALYSIS SHOULD BE DONE AT THE SAME TIME AS A SECOND HIGH LEVEL MEETING. BARRY AGREED AND INDICATED HE HAD NO APPROVAL YET OF THE IDEA OF SENDING SUCH A TEAM TO WASHINGTON, BUT WOULD NOW SOUND IT OUT. BARRY THOUGHT THE REPORT OF SUCH A TEAM, PARTICULARLY IF IT CONFIRMED THE INFORMATION GOC ALREADY HAD ABOUT LOCKHEED, COULD MAKE A MAJOR CONTRIBUTION TO THE GOVERNMENT'S BEING CERTAIN OF ITS CREDIBILITY. ENDERS

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